

Message Text

PAGE 01 STATE 018933

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TO USMISSION OECD PARIS

INFO AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY BERN

AMEMBASSY STOCKHOLM

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY LONDON

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

AMEMBASSY OTTAWA

AMEMBASSY TOKYO

AMEMBASSY VIENNA

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PAGE 02 STATE 018933

TAGS: ENRG

SUBJECT: IEA: STANDING GROUP ON THE OIL MARKET (SOM)

MEETING, JANUARY 13 - 14, 1976

1. BEGIN SUMMARY: IN A TWO DAY MEETING SOM REACHED FINAL AGREEMENT ON ELEMENTS OF CRUDE OIL COST REPORTING SYSTEM TO BE SUBMITTED FOR ENDORSEMENT OF GOVERNING BOARD. SYSTEM COMPONENTS INCLUDE AGGREGATION/DISAGGREGATION COMPROMISE, "BLACK BOX" REPORTING SYSTEM, MODIFIED CRUDE COST REPORTING FORMS, AND IS CONTINGENT UPON GB ACCEPTANCE OF IEA SECURITY PROCEDURES. FRG AGREED TO DROP ITS PROPOSAL FOR ADDITION OF 10TH AND 90TH PERCENTILE FIGURES FOR EQUITY AND BUY-BACK CRUDE OIL COSTS. SECRETARIAT DISTRIBUTED AND DISCUSSED AN INITIAL REPORT ON CRUDE OIL PRICES (IEA/SOM (76)5) WHICH SOM AGREED SHOULD NOT BE PUBLISHED OUTSIDE IEA. US BRIEFED SOM ON THE INFORMATION SECTION OF THE NEW U.S. ENERGY LEGISLATION AS IT RELATES TO U.S. COMPANY DATA SUBMISSIONS TO IEA. SECRETARIAT DISTRIBUTED AND BRIEFLY DISCUSSED A DOCUMENT OUTLINING IEA SECURITY REGULATIONS TO BE SUBMITTED FOR GB APPROVAL. COMPANY CONSULTATIONS HELD WITH SHELL AND PETROFINA ON THE FUTURE ROLE OF THE INTERNATIONAL OIL COMPANIES, SHELL ACCESS TO VENEZUELAN CRUDE OIL AND PETROFINA'S NORTH SEA OPERATIONS. SOM TENTATIVELY AGREED

TO HOLD NEXT MEETING MARCH 2-3, WITH CONSULTATIONS SCHEDULED WITH ENI AND A SECOND COMPANY YET TO BE DETERMINED. SEPARATE WORKING GROUP MEETINGS HELD JANUARY 12 AND 14 DISCUSSED RESPECTIVELY THE ELEMENTS OF A "BLACK BOX" COMPUTER SYSTEM TO ASSURE THE CONFIDENTIALITY OF CRUDE OIL COST DATA SUBMISSIONS AND AN IEA INFORMATION SYSTEM ON CORPORATE FINANCIAL STRUCTURE AND CAPITAL INVESTMENTS. END SUMMARY.

2. CRUDE OIL COST REPORTING SYSTEM: MAJOR ACHIEVEMENT OF THE TWO DAY MEETING WAS AGREEMENT ON THE OVERALL CRUDE OIL COST REPORTING SYSTEM UNDER NEGOTIATION OVER THE PAST YEAR. CHAIRMAN HOPPER OBTAINED SOM AGREEMENT ON THE PACKAGE TO GO TO GB FOR ITS APPROVAL. PACKAGE CONSISTS OF COMPROMISE ON AGGREGATION/DISAGGREGATION LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 03 STATE 018933

(IEA/SOM (75)33 AND CORRIGENDUM 1), BLACK BOX COMPUTER SYSTEM FOR REPORTING COST DATA, TO BE STRUCTURED ALONG THE LINES PROPOSED BY US IN IEA/SOM (75)52, MINOR NON-SUBSTANTIVE MODIFICATION IN REPORTING FORMS PROPOSED BY UK (IEA/SOM(76)4), TOGETHER WITH PROPOSED AGREEMENT ON IEA SECURITY PROCEDURES WHICH WILL ENSURE THE CONFIDENTIALITY OF OIL COMPANY DATA. RE SECURITY, SECRETARIAT (HOPKINS) CIRCULATED AND BRIEFLY DISCUSSED A DRAFT DOCUMENT ON AGENCY SECURITY PROCEDURES TO GO TO GB FOR ITS APPROVAL. HOPKINS NOTED THAT AN EFFECTIVE PHYSICAL AND DOCUMENT SECURITY PROGRAM IS ALREADY IN EFFECT AND THAT DETAILS OF A PERSONNEL AND COMPUTER

SECURITY SYSTEM ARE BEING WORKED OUT. HOPKINS EMPHASIZED THAT SECRETARIAT IS OPEN TO ALL SUGGESTIONS AS TO HOW SECURITY MIGHT BE IMPROVED. U.S. BRIEFED SOM ON JANUARY 12 TECHNICAL WORKING GROUP MEETING (US, UK, FRG, ITALY, SECRETARIAT) WHICH REACHED AGREEMENT ON THE SUBSTANCE OF A COMPUTER SYSTEM TO ASSURE THE CONFIDENTIALITY OF CRUDE OIL COST DATA SUBMITTED BY PARTICIPATING COUNTRIES. NETHERLANDS, FRG, ITALY AND JAPAN WHICH HAD BEEN OUTSPOKEN ADVOCATES OF DISAGGREGATION ASSURED HOPPER OF THEIR SUPPORT FOR CRUDE OIL COST AGREEMENT IN THE INTEREST OF GETTING REPORTING SYSTEM INTO OPERATION. IN A RESTRICTED SESSION FRG AGREED TO DROP ITS PROPOSAL FOR ADDING 10TH AND 90TH PERCENTILE DATA ON CRUDE COSTS IN EXCHANGE FOR U.S. ACCEPTANCE OF UK PROPOSED MODIFICATION IN CRUDE COST REPORTING FORMS.

3. CRUDE AND PRODUCT PRICE REPORTING: SECRETARIAT DIS-
TRIBUTED ITS FIRST REPORT AND ANALYSIS OF CRUDE PRICES
CONTAINING DATA THROUGH SECOND QUARTER '75 (IEA/SOM (76)
5). ITALY AND BELGIUM COMMENTED FAVORABLY UPON THE
REPORT. AUSTRIA EXPLAINED ABSENCE OF ITS DATA DUE TO RE-
FUSAL OF STATE OIL COMPANY OMV TO SUBMIT PRICE INFOR-
MATION, ADDING THAT SUCH SHOULD BE REMEDIED BY
LEGISLATION NOW PENDING BEFORE AUSTRIAN PARLIAMENT. RE-
GARDING SUBMISSION OF PRICE DATA FOR ONE AND TWO COMPANIES,
UK, NETHERLANDS, FRG REITERATED THEIR REFUSAL TO SUBMIT
SUCH DATA UNTIL U.S. AGREED TO DO SO. U.S. RESPONDED SUCH
OMISSIONS FROM ITS DATA FOR FIRST THREE QUARTERS 1975
AMOUNTED TO LESS THAN ONE HALF PERCENT TOTAL VOLUME RE-
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PAGE 04 STATE 018933

PORTED AND ASSURED SOM THAT ONCE SECURITY ISSUE IS RESOLVED
U.S. WILL SUBMIT TWO COMPANY DATA. U.S. NOTED FURTHER,
THAT THE IEA REPORTING SYSTEM PRECLUDES THE SUPPLYING
SINGLE COMPANY DATA WHICH REPRESENTS A SINGLE TRANSACTION
AND, FURTHER, THAT IN 1975 ALL SUCH US SINGLE COMPANY DATA
DID REPRESENT SINGLE TRANSACTIONS. IN LIGHT OF US POSITION,
UK ET AL WITHDREW THEIR REPORTING RESERVATION NOTED ABOVE.
REGARDING ADVISABILITY OF PUBLISHING SECRETARIAT PRICE
DATA REPORT OUTSIDE THE IEA, SECRETARIAT POINTED OUT THAT
SINCE DATA ITSELF WAS HIGHLY CLASSIFIED, PUBLICATION WOULD
NOT BE POSSIBLE WITHOUT CONSENT OF ALL THE COUNTRIES PRO-
VIDING DATA.

4. U.S. BRIEFING ON INFORMATION SECTION (SEC. 254) OF NEW
ENERGY BILL: U.S. BRIEFED SOM ON THE ABOVE SECTION OF NEW
U.S. ENERGY LEGISLATION AS IT AFFECTS SUBMISSION OF U.S.
COMPANY DATA TO IEA. NOTED THAT LAW GIVES U.S. THE
AUTHORITY TO COLLECT AND TRANSMIT DATA REQUIRED BY IEP FOR
DURATION OF THE AGREEMENT, BUT THAT IT PRECLUDES U.S. FROM
SUBMITTING CERTAIN INDIVIDUAL COMPANY DATA, INCLUDING

DATA RELATED TO INDIVIDUAL SALES. DISCUSSION ENSUED ON THE PRECISE MEANING OF "INDIVIDUAL SALES" WITH SEVERAL DELEGATIONS EXPRESSING CONCERN THAT A BROAD INTERPREATION MIGHT CAUSE CONSIDERABLE AMOUNT OF U.S. DATA TO BE DELETED. U.S. ACKNOWLEDGED THIS CONCERN, ADDING THAT THE TERM REMAINED TO BE DEFINED AND WOULD HAVE TO BE EVALUATED ON A CASE-BY-CASE BASIS.

5. COMPANY CONSULTATIONS: WIDE RANGING CONSULTATION HELD WITH SHELL JANUARY 13 AND PETROFINA JANUARY 14. SHELL SESSION FOCUSED ON FUTURE ROLE OF THE INTERNATIONAL COMPANIES AND SHELL ACCESS TO CRUDE IN VENEZUELA. SHELL EXECUTIVES PREDICTABLY FORESAW A CONTINUED VITAL ROLE FOR THE MAJORS IN ASSURING SECURITY OF SUPPLY TO THE CONSUMERS, CITING AS IMPORTANT FACTORS SHELL'S LONG-TERM PURCHASING CONTRACTS WITH AND TECHNICAL ASSISTANCE TO THE PRODUCERS AS WELL AS ITS DOWNSTREAM EXPERTISE WHICH PRODUCERS VALUE HIGHLY. URGED CONSUMING COUNTRIES TO PROVIDE A "POSITIVE" FRAMEWORK FOR THE INTERNATIONALS - E.G., INVESTMENT GUARANTEES FOR THE DEVELOPMENT OF NEW ENERGY SOURCES THROUGHOUT THE WORLD. RE. VENEZUELA, SHELL EX-LIMITED OFFICIAL USE
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PAGE 05 STATE 018933

PECTED PETROVEN WOULD SEEK TECHNOLOGICAL AND MARKETING

LINKS WITH FORMER CONCESSIONARIES, BUT NOT THEIR CAPITAL. SHELL HAS EVERY EXPECTATION OF CONTINUING A CLOSE AND FRUITFUL RELATIONSHIP WITH VENEZUELA. MEETING WITH PETROFINA CENTERED UPON THAT COMPANY'S EVOLVING CRUDE SUPPLY MARKET, PARTICULARLY ITS IMPORTANT NORTH SEA OPERATION WHICH PROVIDES SOME 25 PERCENT OF PETROFINA S CRUDE REQUIREMENTS.

6. OTHER MATTERS: CHAIRMAN HOPPER REPORTED, AND SOM ;CCEPTED, THE IWP'S RECOMMENDATION RELATING TO INFORMATION SYSTEM FOR MODIFICATION IN PRICE ADJUSTMENTS FOR GRAVITY DIFFERENTIALS FOR EASTERN HEMISPHERE CRUDE OIL FROM 6 CENTS TO 3 CENTS PER DEGREE EFFECTIVE OCTOBER 1, 1975. SUCH CHANGE WOULD NOT APPLY TO WESTERN HEMISPHERE CRUDES. HOPPER SET THE NEXT SOM MEETING TENTATIVELY FOR MARCH 2 AND 3, POSSIBLY TO BE HELD IN SPAIN, WITH A CONSULTATION SCHEDULED WITH ENI AND A SECOND COMPANY TO BE SELECTED FOLLOWING DISCUSSION WITH INTERESTED DELEGATIONS.

7. JANUARY 12 WG ON CRUDE OIL COST REPORTING: FOLLOWING A WIDE-RANGING DISCUSSION REGARDING THE RELATIVE MERITS OF U.K. PROPOSAL FOR CODED TELEX SYSTEM FOR TRANSMITTING COMPANY CRUDE COST DATA AS OPPOSED TO THE U.S. - PROPOSED "BLACK BOX" COMPUTER AND COURIER SYSTEM (IEA/SOM(75)52), WORKING GROUP ENDORSED THE U.S. - PROPOSAL AS PROVIDING A

GREATER DEGREE OF SECURITY. ALL AGREED ON NEED TO DEVELOP A SYSTEM OF CONTROLS IN CAPITALS AS WELL AS IN THE COMPUTER ITSELF TO ENSURE ACCURACY OF DATA SUBMITTED. FRG SOUGHT TO HAVE RECORDED DISAGGREGATED VOLUMETRIC INFORMATION BUT WITHDREW THEIR REQUEST IN LIGHT OF EVIDENCE THAT SUCH DATA SERVES NO USEFUL PURPOSE. WG INSTRUCTED IEA SECRETARIAT TO PROCEED TO DRAW UP A COMPUTER PROGRAM WITH THE REQUIRED CHECKS, ACKNOWLEDGING THAT THE SYSTEM MIGHT BE IMPROVED OVER TIME.

8. JANUARY 15 IWP/AD HOC INVESTMENT GROUP MEETING:
REPRESENTATIVES OF EXXON, MOBIL, BP AND ENI MET WITH THE AD HOC SOM GROUP TO EXCHANGE VIEWS ON POSSIBLE WAYS TO LIMITED OFFICIAL USE
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PAGE 06 STATE 018933

STRUCTURE AN IEA CAPITAL INVESTMENT INFORMATION SYSTEM. EXTENSIVE DISCUSSION AT OUTSET CONFIRMED LACK OF A CONSENSUS WITHIN SOM REGARDING EITHER STRUCTURE OR OBJECTIVES OF SUCH A SYSTEM. IN AFTERNOON SESSION U.S. PROPOSED SOM BEGIN WITH A RELATIVELY SIMPLE SYSTEM BASED ON CASH FLOW ANALYSIS - I.E., SOURCES OF FUNDS AND THEIR DISPOSITION. ITALY, UK, NETHERLANDS SUPPORTED THIS APPROACH AS A SENSIBLE FIRST STEP. GROUP AGREED SUCH DATA SHOULD BE SUPPLEMENTED WITH CONSULTATIVE COMPANY FORECAST SESSIONS AND ASKED IWP TO FORMULATE GUIDELINES WHICH WOULD ASSURE

PRODUCTIVE CONSULTATIONS. GROUP ALSO AGREED THAT PROFITABILITY FACTOR SHOULD BE WORKED IN AS A SUBSEQUENT ELEMENT OF THIS BUILDING BLOCK APPROACH, BUT THAT INITIAL EMPHASIS SHOULD BE ON CASH FLOW ANALYSIS. IWP WAS ASKED TO FORMULATE WRITTEN PROPOSALS TO BE DISCUSSED AT A SUBSEQUENT MEETING WITH AD HOC GROUP, TENTATIVELY SET FOR MARCH 1. GROUP DEFERRED ANY DECISION ON ENGAGING AN OUTSIDE CONSULTANT UNTIL NEXT MEETING OF SOM. KISSINGER

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